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STATE FOR EXIM/MICHELE WILKINS

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TAGS: BBSR EAID ECON EFIN HO
SUBJECT: TFH01: DE FACTO REGIME PREPARES 2009 HONDURAS BUDGET

¶1. (SBU) Summary: The 2009 Honduran Budget was introduced and approved by the de facto regime July 2009. The Honduran fiscal year is from January to December, and the exiled government had yet to submit its 2009 budget (which was due to Congress on September 15, 2008). Central government revenues include taxes of Lps. 40 billion (USD 2.1 billion), non-taxes of Lps. 2 billion (USD 107 million), internal capital transfers of Lps. 1 billion (USD 57 million), external capital transfers, donations and loans of Lps. 10.5 billion (USD 555.5 million), public debt of Lps. 10 billion (USD 541 million) and other revenue sources. Central government expenditures increased only 4.9 percent in nominal terms over the approved 2008 budget (Lps. 64 billion from Lps. 61 billion). The budget prepared by the de facto regime show a USD 1.1 billion deficit that must be covered by a combination of internal and external financing. The 2009 budget contemplates external financing of USD 555.5 million that could be impacted by the cut-off of foreign assistance resulting from the political crisis. The de facto regime is anticipating financing USD 544.3 million of the fiscal deficit through domestic sources, however much of this financing is already in place. Although the de facto regime will face an enormous challenge in closing the fiscal gap, this challenge is not insurmountable. The 2009 budget as presented by the de facto administration includes a number of initiatives and projects developed with technical assistance (currently suspended) from OTA over the last three years. End Summary.

Approved 2009 Budget

¶2. (U) The 2009 Honduran Budget was introduced and approved by the de facto regime July 2009. The Honduran fiscal year is from January to December, and the exiled government had yet to submit its 2009 budget (which was due to Congress on September 15, 2008). The approved budget is Lps. 112.9 billion (USD 6 billion), which is Lps. 64 billion (USD 3.4 Billion) for the central government and Lps. 61 billion (USD 2.6 billion) for the decentralized government organizations less offsetting flows.

----- 2009 Budget Revenues

¶3. (U) Central government revenues include taxes of Lps. 40 billion (USD 2.1 billion), non-taxes of Lps. 2 billion (USD 107 million), internal capital transfers of Lps. 1 billion (USD 57 million), external capital transfers, donations and loans of Lps. 10.5 billion (USD 555.5 million), public debt of Lps. 10 billion (USD 541 million) and other revenue sources. The de facto Minister of Finance Nunez stated that

this budget assumed promised international assistance because she had not been notified of any cancellations.

----- 2009 Budget Execution

¶4. (U) Central government expenditures increased only 4.9 percent in nominal terms over the approved 2008 budget (Lps. 64 billion from Lps. 61 billion). Major expenditure increases include Education - increase of 12 percent (Lps. 20 billion from Lps. 18 billion), Health - increase of 22.8 percent (Lps. 9 billion from Lps. 7.4 billion), Ministry of Finance - increase of 18.6 percent (Lps. 3 from 2.5 billion) and the Road Fund - increase of 43.6 percent (1.4 billion from Lps. 959 million in part to provide maintenance as required in the MCC compact). Expenditure decreases include a reduction in Central Administration Financial Services of 74 percent (Lps. 5.5 billion to Lps. 1.4 billion) for reductions in travel allowances, tickets, advertising, gasoline, electricity, cell phones, and non-essential material; 39 percent in Natural Resources and the Environment (Lps. 489 million from Lps. 806), and 32 percent in Science and Technology (Lps. 547 million from Lps. 804 million),

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Financing the Fiscal Deficit

¶5. (U) The budget prepared by the de facto regime show a USD 1.1 billion deficit that must be covered by a combination of internal and external financing.

	Lempiras (Millions)	USD (Millions)
Transfers and Donations		
Multilateral	683.0	36.1
Bilateral	292.1	15.5
MCC	1,077.6	57.0
Debt Relief	3,987.4	211.0
Budget Support	574.0	30.4
SUBTOTAL	6,614.0	349.9
Foreign Loans	3,886.1	205.6
SUB EXTERNAL FINANCE	10,500.1	555.5
GOH Bonds	6,518.0	344.9
Loan Banco Central	3,768.0	199.4
SUB INTERNAL FINANCE	10,286.0	544.3
TOTAL FINANCING REQUIREMENT	20,786	1,099.8

----- External Finance

¶6. (U) The 2009 budget contemplates external financing of USD 555.5 million that could be impacted by the cut-off of foreign assistance resulting from the political crisis; however this reduction in finance due to the cut-off would be modified by a number of factors such as how much has already been disbursed and how much is already committed and will be disbursed in the future. For example, almost all of the MCC funds are already committed and will be disbursed in 2009 (approximately USD 11 million of 2010 funds are at risk). At a recent meeting of the international donor community (G-16) most participants stated that ongoing projects would continue but that new projects are being paused. The Treasury Department's Office of Technical Assistance (OTA) Resident Advisors will be interviewing the major donors to try and quantify the cuts affecting the 2009 budget.

¶7. (U) Although the status of debt relief is unknown, this will not have much impact on the budget because this amount would be applied to the related debt service which the government is already not paying (this item appears to be a

holdover from the 2008 budget pending final resolution of the debt relief). The only amount that will definitely be cut is budget support. The reductions will be modified by how much has already been disbursed. (Much of this support was already being curtailed because of the lack of agreement between the exiled government and the IMF, as well as the lack of a 2009 budget law).

----- Internal Finance

¶8. (U) The de facto regime is anticipating financing USD 544.3 million of the fiscal deficit through domestic sources however much of this financing is already in place. The Central Bank loan of USD 199.4 million was mostly disbursed in the first half with the balance disbursed in July. The de facto administration is in the process of converting this short term loan into a 10 year maturity. Further, the government placed USD 158.7 million of bonds in the first half of the year leaving USD 186.2 million to raise in the second half which they are doing through a series of actions including new issues, rollovers and swaps.

----- Conclusion for Financing the Fiscal Deficit

¶9. (SBU) Although the de facto regime will face an enormous challenge in closing the fiscal gap, this challenge is not insurmountable. Most of the domestic finance is already in place and the Office of Public Credit, working with the Central Bank, is using the techniques and procedures developed in coordination with the OTA Debt Advisor to raise the necessary finance. More investigation is necessary to determine the full impact of the aid cut-off. An early appraisal indicates that the impact will be much less than it would appear based on the enormous amount of external finance indicated in the budget.

OTA Initiative in the 2009 Approved Budget

¶10. (U) The 2009 budget as presented by the de facto administration includes a number of initiatives and projects developed with technical assistance (currently suspended) from OTA over the last three years.

¶11. (U) The human resources project of the OTA Tax Team that had been ignored by the Zelaya administration and in danger of falling apart was included in the 2009 budget of the de facto regime. We have been advised that the Tax Administration (DEI) is in the process of implementing the HR project as well as other OTA initiatives (the Executive Committee for Reform, the Performance Committee System, mid-year review and funding for the Large Taxpayer Organization). The contract for the funding of OTA's work on the HR project by the World Bank (WB-FIDE) is due to expire in November 2009. Although OTA has already proposed an extension to complete the remaining critical components of the project and to provide a transition for the new government, this funding is likely to be negatively impacted by the aid cut-off resulting in unknown negative consequences.

¶12. (U) The 2009 budget includes language referencing the debt limits contained in the Public Indebtedness Policy 2009-2013 document which the OTA Debt Advisor helped to develop. In addition, the approved budget law includes new language permitting the Office of Public Credit to use swap programs to modify the profile of public debt and notes that swaps do not affect the total debt outstanding. The Office of Public Credit has on its own initiative begun working with the Central Bank to develop the procedures for the swap program as well as returning to the procedures developed over the last several years regarding debt issuance and management that had been discarded by the Zelaya administration.

More detailed information to follow

¶13. (U) This is a preliminary review. We plan to get additional information from international counterparts and non-government officials in order to provide more details. Due to the US no contact policy, we will not be meeting with regime counterparts.
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